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SUBJECT: PUNJAB: BELLWETHER STATE CAUGHT BETWEEN CONSUMER
BOOM AND RURAL SLUMP

REF: A. NEW DELHI 6868
[1](#)B. NEW DELHI 2556
[1](#)C. NEW DELHI 2631

[1](#)1. (SBU) SUMMARY: Punjab remains the richest state in India with its historically strong agricultural sector, and nascent real estate and industrial sectors. However, there are signs of decline in Punjab as other states surge ahead. Its long-held claim to highest per capita income in India has been ceded to neighboring Harayana. Moreover, its human development indices in education and health are comparable to some of the most backward states in the Union. The ruling Shiromani Akali Dal (SAD) - Bharatiya Janata Party (BJP) coalition government, under the leadership of Chief Minister Parkash Singh Badal, is seen by many observers we spoke to as oblivious to issues plaguing the state, including unemployment, rampant drug use and inflation. In the run-up to Lok Sabha elections due by May 2009, national issues such as the economy and terrorism will be front and center, but underlying concerns about the direction Punjab is heading will also loom large. END SUMMARY.

PRE-ELECTION BELLWETHER COVERAGE: PUNJAB

[1](#)2. (U) The coming Lok Sabha elections due by May 2009 will represent the world's largest exercise in democracy. They will also pose a monumental organizational challenge for the Indian state, which must prepare for about 650 million eligible voters. Ahead of national elections, the Mission's POL and ECON sections will take the political and economic temperature of key states. The pre-election bellwether coverage will zero-in on local trends in Uttar Pradesh, Punjab, Maharashtra, Andhra Pradesh, Tamil Nadu and West Bengal. We hope these reports will give Washington readers better insight into: a) the vast India that lies outside of Delhi's Ring Road; b) parties and personalities that shape India's political landscape; and c) the economic, security and social trends that will influence elections results. Such snapshots will give us a better sense of how local trends affect national politics and, ultimately, U.S. foreign policy goals.

13. (U) During four days of meetings in Punjab (one of the "bellwether" states) from October 13-16, we met with senior bureaucrats, journalists, businessmen and human rights activists. We spent time in Chandigarh, Amritsar and in rural areas outside of Jalandhar.

SLOW GROWTH DESPITE AN URGE TO SPEND

14. (U) A gleaming BMW slowly turns the corner on Madhya Marg, the main avenue of Punjab's capitol city Chandigarh. The driver, Kanwar Dhillon, has one of the hottest rides in town: a BMW 5 Series worth USD 86,000. A self-proclaimed "car freak," Kanwar is the America-educated son of Congress Party MLA Kewal Dhillon. The state's thriving luxury car market underscores one of the many contradictions in Punjab's social and economic landscape. While it remains one of India's largest luxury markets, its GDP was six-percent this past year, making it one of the slowest growing states in India, while the agricultural sector has stagnated at two-percent growth for the last five years. When driving from Chandigarh to Amritsar, it seems that that every major city features at least one modern shopping center selling up-market western brands. Kanwar believes that Punjabis' love for luxury goods is intrinsically linked to their consumption-driven culture. "Punjabis are colorful people. We buy more, socialize more and like the finer things in life," he remarked. (NOTE: Such conspicuous consumption is also likely a result of the large amount of remittances that go to Punjabi families from relatives working abroad. End

NEW DELHI 00002829 002 OF 005

Note.)

15. (U) Special Correspondent for The Tribune Ashok Sethi shared more critical views. In his opinion, the booming luxury goods market is a clear indication of growing income disparities in the state. Differences between booming urban centers and troubled rural areas are also at the center of the debate about Punjab's relative decline. Agriculture has long been the basis of Punjab's wealth. However, the agro-business sector remains weak despite the impressive crop yields after record-breaking monsoon rains this past year. Farmers are over-burdened with bank loans to purchase tractors and pay loans owed to landlords, which has led to increased rates of suicide across the farm-belt, Sethi noted.

HOW ARE YOU GOING TO KEEP THEM DOWN ON THE FARM?

16. (SBU) Congress Party MLA Sukhpal Singh Khaira has seen first-hand the "vicious cycle" of debt and under-development in Punjab's rural farming communities. Speaking from his ancestral home in Bholath, located one hour north of Jalandhar, he noted that farmers are uneducated, unorganized and unable to break out of debt. Under pressure from the powerful agricultural sector, the Congress party under the leadership of ousted Chief Minister Amarinder Singh had promised debt forgiveness to farmers in the run-up to the February 2007 state assembly elections. They lost and the current Shiromani Akali Dal (SAD)-Bharatiya Janata Party (BJP) coalition government, Kaira indicated, did not pursue the Congress initiative. Chief Minister Parkash Singh Badal is "all talk when it comes to real development, and people are desperate for help," he charged. Kaira and his village constituents have taken to the streets in protest of alleged government negligence of the rural sector. Just days before our meeting, Kaira and 100 supporters staged a sit-in at a SAD office and were taken into police custody over-night.

DISAPPOINTING SAD-BJP DEVELOPMENT RECORD

17. (U) Not all the news from Punjab is negative. The current coalition government can point with pride at the fact that for the sixth consecutive year, Punjab has been ranked

the "best state" by leading magazine India Today's 2008 State of States Survey. The state boasts the highest per capita generation of electricity in India at 2.5 times the national average. Punjab's road, rail, air and transport systems are routinely rated the best in India and, as a result, it has become an attractive destination for foreign companies looking to establish Indian operations (Ref. A). We saw a plethora of major road projects throughout the state - from the planned city of Chandigarh, to the industrial town of Jalandhar, to the religious and cultural center of Amritsar.

18. (U) Punjab Information and Public Relations Minister Bikram Singh Majithia noted that the state government is working to connect Punjab to the rest of the country, and to upgrade infrastructure to world-class standards. There are more than 100 domestic and international flights everyday, and major airport renovation projects are underway in all major cities. Majithia, however, admitted that industrial development continues to lag, as Punjab is a land-locked state that lacks natural resources. He also pointed out that tax concessions in neighboring states, particularly Himachal Pradesh and Haryana, have diverted private investment thereby hindering the industrial sector's growth.

19. (SBU) There are other worrisome trends. According to the India Today survey, the state's long-held claim to highest per capita income has been ceded to neighboring Haryana. Moreover, its human development indices in education and health are comparable to some of the most

NEW DELHI 00002829 003 OF 005

backward states in the Union. Vijay Chopra, Managing Editor of several local vernacular newspapers, noted that "no meaningful projects" have been initiated in the education and health sectors under CM Badal's watch. MLA Kaira lamented that the rapid rise of private players in health and education has made the government complacent in financing public sector institutions. While the middle and upper class Punjabis have benefited from the growth of the private sector hospitals throughout Punjab, public hospitals lack basic resources, such as beds and sanitary medical supplies. Kaira called on the SAD-BJP government to create incentives for attracting quality public sector doctors and nurses, and to invest in government health care infrastructure. In reference to education, he indicated that most working class children drop out of school at fifteen. In his opinion, rural youth prefer to work rather than pursue higher education because of the poor quality of instruction and the general lack of resources in public schools.

10. (U) Chopra added that the basic infrastructural framework needs a major overhaul, noting that the Punjab national highway in rural areas has not been upgraded since the 1970's. The government has focused on "showy" road works, such as overpasses in major cities, and has failed to address the infrastructure in small cities and rural areas, he said. We saw this first-hand en route to MLA Kaira's village in Bholath. The main roadway in rural Western Punjab remained rough and uneven throughout, and we observed few signs of commercial development.

DRUGS, THE NUMBER ONE SOCIAL PROBLEM

11. (U) Several contacts raised the issue of rampant drug use as the number one social challenge facing the state. The Director General of Punjab Police N.P.S. Aulak mentioned that the problem has worsened in the last ten years and affects people from all income brackets across the state. He indicated that police forces have stepped up drug enforcement in railway stations, airports and along the Pakistan-India border. On October 9, DG Aulak noted that Amritsar Airport Police had seized 3.7 kilograms of heroin worth more than USD 1 million from an elderly couple.

12. (U) Herkewaljit Singh, Editor of the local vernacular

newspaper the Daily Ajit, blamed unemployment for rising drug abuse. With a stagnant agricultural sector, and limited employment opportunities in private companies, many young Punjabis have turned to the drug trade to make a living, he added. Drug use in rural Punjab is on the rise, Singh pointed out, where farmers use drugs to "dull the pain" of debt and to deal with the isolation of rural life. In his view, the SAD-BJP government has not implemented an effective anti-drug campaign. He contended that the state government should dedicate sufficient resources and political support to investigate criminal drug links. In addition, Singh called on the SAD-BJP to employ an outreach program to educate the public about the harmful social and health effects of drugs.

BADAL FAILS TO DELIVER

¶13. (SBU) Even nonpartisan sources we talked to were critical of CM Badal's government as unresponsive to issues affecting the everyday lives of Punjabis. Backed by rural castes and the Sikh community in February 2007, the SAD-BJP coalition came to power on a populist agenda to lift up those left behind in Punjab's boom (Ref. A). In reality, Badal's government has failed to deliver any semblance of meaningful development and, according to Vijay Chopra and Ashok Sethi, Punjabis are worse off now than they were one and one-half years ago under the previous Congress-led administration. MLA Khaira alleged that the SAD-BJP is trying to enhance its

NEW DELHI 00002829 004 OF 005

image by taking credit for development projects, such as public school and roadwork projects initiated during the previous Congress-led administration.

¶14. (SBU) Sources also noted that the coalition government faces a leadership crisis. According to Chopra, CM Badal has abdicated authority to his son Sukhir Singh Badal, noting that Sukhir regularly serves in an official capacity at development project inaugurations and other state events. "It's like a plane with no pilot. Who is in charge, Badal or Badal Jr.?" he inquired. Ashok Sethi suggested that the SAD-BJP's poor development record may provide an unexpected boost for the Congress Party in upcoming elections.

LOOKING AHEAD TO 2009 ELECTIONS

¶15. (U) Amid the global financial crisis and liquidity shortage in the domestic market, economic issues will feature prominently in national election next year. During a meeting with local Jalahndar business and community leaders on October 14, all 16 representatives agreed that the economy would be the priority issue in upcoming elections. Bawa Atamjit Singh, managing director of a local leather tannery factory, went into detail about the rise in production costs under the Congress Party-led United Progressive Alliance (UPA) government and worried that he may be forced to layoff employees. "We want to know what the government is doing to bring down prices," Singh demanded. MLA Khaira in an earlier meeting explained that spiraling food and commodity prices are a "global problem" that cannot be fixed overnight. He pointed to Congress-led policies such as the national rural employment scheme and debt waivers that will help to ease pressures on the common man.

¶16. (U) Meeting with us days after the 123 Agreement signing on October 10, contacts spoke positively about the U.S.-India Civil Nuclear Initiative and its long-term benefits for the bilateral relationship. Vijay Chopra noted that it was one of the most significant foreign policy initiatives in India's history and that it will fundamentally change the country's global future. Business and community leaders in Jalahndar were hopeful that nuclear trade would help address the local need for alternative energy resources. However, most contacts agreed that the government has not reached out to the rural community and explained the

widespread benefits of Civil Nuclear Cooperation. In order to gain political leverage in time for national elections next year, contacts called on the UPA to enlist a broad-reaching public relations campaign to educate the local community about alternative energy, nuclear power and the implications for the local consumer.

¶17. (SBU) The emerging terrorist threat, following the serial terrorist blasts in Indian regional centers from July to September 2008, has emerged as a possible liability for the UPA in forthcoming elections. There has been considerable internal debate among Congress Party officials and UPA allies on whether to enact stronger terror-fighting legislation (Ref. B). Vijay Chopra alleged that UPA "internal fighting" on the issue is to be expected, adding that senior leaders will not take a "political risk" to make a decision on controversial issue. The party spokesmen release statements "promising everything under the sun" to earn political brownie points from strategic vote banks, he added.

PUNJABIS CONDEMN COMMUNAL POLITICS

¶18. (SBU) Contacts observed that the Bharatiya Janata Party (BJP) will suffer setbacks due to their "communal agenda" targeting Christians in Orissa and Karnataka (Ref. C).

NEW DELHI 00002829 005 OF 005

Punjab Minister of Cooperatives Captain Kawaljit Singh noted that Punjabis have no tolerance for communal violence after decades of insurgency (Ref. A). "When minorities from other communities are attacked, it touches a soft nerve in the state," he commented. No contacts expressed concern of communal tensions reemerging in the Punjab. Compared to other parts of India, Herkewaljit Singh observed that people of different religious and migrant labor communities live peacefully together. Punjabis seem more concerned about issues that affect their daily lives, such as development, economic stability and employment, he said.

COMMENT: BADAL NEEDS TO KICK IT UP A NOTCH

¶19. (SBU) The SAD-BJP government has portrayed itself as the government of the people, but it has yet to convince Punjabis that it is responsive to popular desires. While Punjab remains the richest state in the Union, it is losing competitive advantage across all sectors. Agricultural reforms are moving at a tortoise pace. Private industries have fled to neighboring states. While economic progress has been reported in some sectors, Punjabis fear that the global financial crisis and inflation may cloud investors' confidence. Moreover, the ruling government is seen as oblivious to issues that affect Punjabis' daily lives, such as unemployment, drug use, health and education. With just over three years remaining in the current state government administration, Badal will be hard pressed to meet the expectations of the Punjab electorate. He will have to devise an effective outreach strategy to convince local Punjabis that SAD-BJP is responsive to local needs or risk losing political capital to the rival Congress Party.

COMMENT: ECONOMY AND TERROR TOP 2009 POLLS

¶20. (SBU) In the run-up to national elections next year, the UPA's response to perceived economic instability and the resurgent terrorist threat will be closely watched by local Punjabis. To address economic fears, the UPA will seek to generate positive buzz by pointing to the historic run of economic growth and by projecting India's global future following the successful passage of the U.S.-India Civil Nuclear Initiative. In addition, the UPA will have to walk a fine line to appear tough on terror while not alienating its Muslim constituency. END COMMENT.

